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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

NO. 411

BALDWIN-LIMA-HAMILTON CORPORATION and EDWARD E. SIMMONS, JR., Petitioners,

v.

TATNALL MEASURING SYSTEMS COMPANY and THE BUDD COMPANY, Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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To the Honorable, the Chief Justice of the United States and the Associate Justices of the Supreme Court of the United States:

Petitioners, BALDWIN-LIMA-HAMILTON CORPORATION and EDWARD E. SIMMONS, JR., plaintiffs-appellants below, pray that a writ of certiorari issue to the United States Court of Appeals for the Third Circuit to review the judgment of that Court herein.

Opinions Below

The opinions of the Court of Appeals are reported at 268 F.2d 395 and appear *infra*, p. 23, p. 24. Judges McLaughlin, Kalodner and Staley heard and decided the appeal in the first instance; *infra*, p. 23. Chief Judge Biggs and Judge Hastie participated in the consideration of a petition for rehearing, and Chief Judge Biggs dissented from the denial of rehearing; *infra*, pp. 24-25.

The opinion and supplemental opinion of the District Court (per Steel, J., sitting by designation in the Eastern District of Pennsylvania) are reported at 169 F. Supp. 1; they appear in the printed record filed with this petition (R. 5a-70a).

Jurisdiction

The judgment of the Court of Appeals was entered May 20, 1959. A timely petition for rehearing was filed. It was denied August 5, 1959. This Court has jurisdiction by virtue of the provisions of 28 U.S.C. 1254(1).

Questions Presented

1. When a manufacturer of a unitary device has a patent covering a component that forms an integral part of the device but does not cover the device in its entirety, is it a misuse of the patent, precluding enforcement of it against anyone, for the manufacturer to refuse to sell the patented component by itself to others for use in competing devices of their manufacture?

2. Is it misuse of a combination patent, precluding the owner from enforcing it against anyone, for him to refuse to sell an element of the combination (which element is not a staple article of commerce) to one who intends to join it with other elements of his own manufacture and thereby complete an unlicensed combination covered by the patent?

3. Is it misuse of a patent, precluding the patent owner from enforcing it against anyone, for him to attach a "license notice" to a device made and sold under the patent, restricting the fields of use in which the purchaser is licensed to use the device?

Statute Involved

Title 35 U.S.C. 271. Infringement of Patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. July 19, 1952, c. 950, § 1, 66 Stat. 811.

Statement of the Case

1.

This is an action for patent infringement seeking injunctive relief and damages for past infringement. Petitioner Simmons is the inventor-owner of the patent in suit. Petitioner Baldwin-Lima-Hamilton Corporation (formerly known as The Baldwin Locomotive Works; hereinafter call "Baldwin") is his exclusive licensee. Jurisdiction in the court of first instance was under 28 U.S.C. 1400(b).

The trial judge dismissed the complaint "notwithstanding the fact that the Simmons patent is valid and infringed" on the ground that some of Baldwin's practices in the sale of devices embodying the invention constituted misuse of the patent. The Court of Appeals affirmed. In his dissent to the denial of a petition for rehearing in the Court of Appeals, Chief Judge Biggs said that the decision herein "has extended greatly the patent misuse principle" and that, "applied full force", it "could prohibit a patentee from employing his invention as a component even in an apparatus of his own manufacture".

2.

The Simmons invention is a "bonded filament strain gage" for the precise measurement of the amount of deformation ("strain") of physical structures, e.g., airplane wings or machine parts, even in the smallest and most inaccessible places. The "filament" is a solid, continuous, extensible and contractible electrical conductor of exceedingly small size, e.g., a metal wire much finer than a human hair. The filament is "bonded" to the test

body (e.g., the airplane wing, or the machine part) by imbedding the filament in a patch of a suitable cement applied to the surface of the test body at the point selected for the measurement of strain.

Bonding of the filament throughout its effective length to the test body is a *sine qua non* of the invention. The filament is thereby made a slave of the test body and stretches or compresses obedient to its minutest deformations. The cement is also an electrical insulator and insulates the filament from the test body.

In the use of the gage, the filament is connected into an electrical circuit. Whenever the filament stretches or compresses, obedient to the deformation of the test body, its electrical resistance changes. The variations in circuit flow are measured by sensitive instruments and are a measure of the strain in the test body. Deformations of a millionth of an inch or less, in an inch-long portion of the test body, are readily measured.

The invention has been truly revolutionary; indeed, a modern science — experimental stress analysis — has been built upon it.

3.

Respondent Tatnall Measuring Systems Company is a wholly owned subsidiary of respondent The Budd Company. Budd had been a substantial user of Simmons gages while one F. G. Tatnall was still in the employ of Baldwin as a Director of Research and Development. Budd caused respondent Tatnall Measuring Systems Company to be incorporated while F. G. Tatnall was still employed by Baldwin. F. G. Tatnall became an employee of Budd and General Manager of the company

bearing his name. He subsequently left the employ of Baldwin. Respondents entered upon their infringing course of conduct shortly thereafter. Save for the infringement herein complained of, the Simmons patent has been well-nigh universally respected.

4.

The gage *per se* has no utility whatsoever. It has utility only when bonded to a test body and connected into an appropriate electrical circuit. It is not a staple article of commerce capable of non-infringing use.

There has been no price-fixing, either on original sale or resale.

5.

Baldwin made the Simmons invention widely available to the public on reasonable terms (a) through license agreements, (b) by the sale of gages *per se* and (c) by the manufacture and sale of measuring devices such as "load cells" (*infra*, pp. 8-9) of which the strain gage *per se* is one component.

(a) The trial judge upheld the propriety of Baldwin's license agreements and the Court of Appeals left his findings thereon undisturbed.

(b) The gages sold *per se* have been sold with an attached notice in the following terms:

"NOTICE

"STRAIN GAGES—Patented under one or more of the following United States patents numbered: 2,292,549; * * *. [Patent 2,292,549 is the Simmons patent in suit; a list of other patents follows in the notice].

"These gages are sold for use only to measure strain in the testing of a structure, model, part or specimen but no license is granted for their use in performing an operating, controlling or service function as a part of a machine, apparatus or device, or in measuring torsional or other strains on rotating shafts or members. Inquiries for apparatus and license in these excepted fields of use are solicited under one or more of the following United States patents numbered: [a list of other patents follows]."

The trial judge held in his original opinion that Baldwin's use of such notices constituted misuse of the patent, barring petitioners from any relief against respondents' adjudged infringement. A petition for rehearing was filed, challenging that conclusion among others, and the trial judge thereafter filed a supplemental opinion. It was silent on the question of legality of the notices. While the Court of Appeals made no specific reference to them, it affirmed "upon the opinion and particularly the supplemental opinion of Judge Steel" (*infra*, p. 24).

(c) The "misuse" specifically referred to in the opinions of the Court of Appeals was in respect of the manufacture and sale of unit devices of which the strain gage *per se* is a component. The decision was that it was misuse of the patent for Baldwin to refuse to sell the gages *per se* to others who wished to manufacture like devices, using components — other than the gage *per se* — of their own manufacture.

The trial court mentioned the sale of Baldwin's "load cells", used for weighing airplanes at rest, as illustra-

tive of the practices condemned below. Accordingly, we believe an understanding of the nature of a "load cell," as distinguished from the strain gage which is merely a component thereof, is necessary to an understanding of the impact of the decision below:

A typical load cell of Baldwin's design for airplane weighing is a device far more compact than a conventional weighing scale of like capacity. It consists essentially of a squat elastic metal post with one or more Simmons gages bonded to its surface intermediate its top and bottom, and enclosed in a shell which permits of the post being freely compressed ("strained") by a load applied to the top of the post. Several such cells are placed in a shallow pit and a pit cover, or apron, is placed over them with its top surface flush with the airport pavement. If an airplane is spotted on the apron, the posts of the load cells bear its weight and they are compressed, minutely but in an amount proportional to the load; the filaments bonded to the posts are correspondingly foreshortened; there is a corresponding change in the value of the electrical current passed through the filaments, and this is translatable by means of sensitive instrumentation into terms of the weight of the airplane.

As its name indicates, a Baldwin load cell is a unitary device and the gage is a permanent component of it, just as the crankshaft is a permanent component of a gasoline engine. Absent the strain gage, Baldwin's device is not a load cell or an article of commerce of any sort, but an incomplete and unusable congeries of the other load cell parts—as incomplete and unusable as a gasoline engine without a crankshaft.

Baldwin designed its load cells and embarked on their manufacture after acquiring its license under the Simmons patent. It also granted a sub-license to a competitor, licensing it to make load cells having Simmons gages as components.

Load cells of designs other than Baldwin's, not employing the Simmons gage, are available.

6.

Consonant with the limited license policy enounced in the above-quoted notice, Baldwin did not sell gages generally for use in load cells. The trial judge concluded that this was a "basic vice" of Baldwin's sales policy, constituting misuse of the patent, and said:

> "By thus conditioning the right to use Simmons gages as a permanent element solely with equipment purchased from Baldwin or its licensees, Baldwin has used the monopoly of the patent to further the sale of apparatus with which the gages can be used."

The trial judge recognized that the majority of the unitary devices sold by Baldwin are patented as such; he stated that the record "is not clear whether all of the products to which the Simmons gages were 'tied' were covered by other Baldwin patents" but deemed this "not material" to any question of misuse of the patent in suit. In his supplemental opinion, he recognized that at least some of the patents covering the unit devices issued on applications divided out of the application for the patent in suit. Baldwin solicited licenses under the patents on its unit devices (*supra*, p. 7).

7.

In the petition for rehearing filed with the trial judge, it was pointed out that he had properly found that the patent claim "contains three elements: (i) a test body whose strain is to be measured, (ii) a continuous metallic filament of solid electrical conducting material whose electrical resistance varies in accordance with changes in strain in the filament, and (iii) a means for bonding the filament in an untaut condition throughout its effective length to the body to be tested so that the filament forms a completely unitary part of the test body". It was pointed out that this meant that a load cell having a Simmons gage as a component was covered as an entity by the patent claims and that by its decision the district court had wholly reinstated the *Mercoid* cases,[1] in spite of the limitations imposed upon their doctrine by the subsequent enactment of 35 U.S.C. 271 by the Congress.

The district court thus found it necessary either to reverse its conclusion of law on misuse or to retract its finding of fact that the patent was a combination patent. It chose the latter course and in its supplemental opinion held that the test body is not an element, or at any rate not a "material" element, of the Simmons claims—that the patent merely covers a gage *per se*—and that 35 U.S.C. 271 is not applicable. And the district court reiterated its view that Baldwin's policy of refusing to sell gages *per se* "to persons who might desire to use

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1. *Mercoid Corporation v. Mid-Continent Investment Co.*, (1944) 320 U.S. 661, and *Mercoid Corporation v. Minneapolis-Honeywell Regulator Co.*, (1944) 320 U.S. 680.

them with strain sensitive apparatus [load cells] of a type manufactured by Baldwin or its licensees unless the persons bought both the gages *per se* and the apparatus from Baldwin or its licensees" constituted an expansion of the monopoly conferred by the Simmons patent, barring enforcement of it.

The majority of the Court of Appeals thought that the trial court's second analysis of the patent claim was the right one; Chief Judge Biggs thought the first holding was correct. In either view of the matter, a question of the applicability of the misuse doctrine, not heretofore decided by this Court, is presented.

8.

The petition to the trial judge also pointed out that Baldwin's practices (i) do not preclude or limit the public in any way in respect of the manufacture, sale or use of load cells which do *not* have a Simmons gage as a component and (ii) do not minimize or eliminate competition in such load cells, or in staple articles of commerce. Nether the district court nor the Court of Appeals questions those propositions, and they seemingly accept them as true for the purposes of decision.

REASONS RELIED ON FOR THE ALLOWANCE OF THE WRIT.

(1) The decision below greatly extends the patent misuse doctrine; the questions presented by this petition are of large and present public importance.

(a) In his dissent below, Chief Judge Biggs, who views the misuse doctrine as one of great breadth and has always applied it broadly in his opinions,[2] correctly said that by its decision herein

> "The court has extended greatly the patent misuse principle. This extension, applied full force, could prohibit a patentee from employing his invention as a component even in an apparatus of his own manufacture."

The "apparatus of [Baldwin's] own manufacture" is a unitary device, sold *only* as a unit. The court below deemed this of no moment and held that Baldwin's insistence on selling the load cell as a unit, coupled with its refusal to sell the gage *per se* for use in load cells to be made by others, was an unlawful "tie-in" sale, barring enforcement of the patent.

There was never any suggestion by the courts below that Baldwin required its customers or licensees to buy from Baldwin any unpatented parts *other* than components of its unit devices, and those only when integrated into the device, which was sold as a unit; thus, Baldwin

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2. See, e.g., *Barber Asphalt Corporation v. La Fera Grecco Contracting Co.*, (C.A. 3, 1940) 116 F. 2d 211; *Newburgh Moire Co. v. Superior Moire Co.*, (C.A. 3, 1956) 237 F. 2d 283; and *The American Securit Company v. Shatterproof Glass Corporation*, (C.A. 3, 1959) .... F. 2d ...., 122 USPQ 167.

did *not* require the purchase of the sensitive current measuring instruments used, or other unpatented accessories.

We have noted above that the gage is just as much an integral part of a load cell as a crankshaft is an integral part of a gasoline engine. In terms of that analogy, the case is this: An engine maker invents an improved crankshaft. He uses the patented crankshaft as a component in engines of his own design, and creates a market for the engines because of their superiority. His competitors thereupon ask him to sell crankshafts to them, for use in their engines. He refuses to do so. The decision below says that his refusal is an unlawful exercise of the right of exclusion accorded him by the patent grant, rendering the patent unenforceable.

The decision below leaves him no middle ground—he must license without restriction any and all who desire it to use the invention, or he must refrain from using the invention himself as a component in devices of his own manufacture. Neither result comports with the basic philosophy of the patent system or subserves its Constitutional objective. Long range, neither result promotes the public interest.

(b) The decision below would effectively preclude the patent owner from granting an exclusive license in a limited field. If, for example, he should grant an exclusive license to one competitor to use his patented crankshaft in the field of marine engines, thus parting with his right to grant another license in that field, and if he were then obliged to sell crankshafts without restriction for use in marine engines, he would be aiding and abetting an invasion of his licensee's field.

The proposition just stated is precisely the consequence of the position taken by the trial judge. Wherefore, it follows under the decisions below that a patent owner who grants one license (but refuses to license indiscriminately) must either dishonor the license terms or refrain from using the invention in products of his own manufacture.

This Court has consistently sustained licenses which, like Baldwin's licenses, are restricted as to field of use, notably in *General Talking Pictures Corp. v. Western Electric Co.*, (1938) 304 U.S. 175 and 305 U.S. 124. The present case is precisely parallel to *Talking Pictures* even in the nature of the device involved. Neither has any utility except when joined with other components into a larger complex — the Simmons gage must be bonded to a test body and connected into an electrical circuit; the "amplifier" of *Talking Pictures* must be combined with the other components of a radio or a public address system. The several separately useless components of a Baldwin type load cell are integrated into a unitary device, marketed only as a unit; it seems clear from the decisions that Transformer Company's sales were not sales of the amplifiers alone, but of sound reproducing and amplifying sets of which the patented amplifier was merely one component.

The decisions below thus find misuse in practices the same in all material respects as those of the licensors in *Talking Pictures*. Neither the majority nor the minority opinions in *Talking Pictures* suggest that the misuse doctrine is applicable to such a state of facts.

(c) In the foregoing discussion, it has been assumed that the "test body" is not an element of Simmons'

patent claims and that they cover only the gage *per se* (cf. *supra*, pp. 9-10). If, as Chief Judge Biggs thought, and as the trial judge originally held, the claims cover the *combination* of the gage, test body and bonding means, the question presented is whether it is misuse of the patent for Baldwin to refuse to sell the gage *per se* (which is not a staple article of commerce) to a rival manufacturer who intends to combine it with a post and a shell (not staple articles of commerce) to form an infringing load cell (see *supra*, p. 8). The trial judge held that 35 U.S.C. 271 would not apply because the test body was in no event a "material" part of the invention, and seemed to think that the *Mercoid* doctrine still applies, despite the subsequent enactment of 35 U.S.C. 271.

(d) Such gages as Baldwin sold *per se* were sold with an attached notice (quoted *supra*, pp. 6-7) informing the purchaser that the sale carried with it no license to use the gage as a component of a device such as a load cell. These notices were, of course, necessary to preserve the integrity of Baldwin's licenses, limited as to field of use. Use of the notices was alone held below to constitute misuse of the patent.

The notices condemned below are four-square with those used by RCA in the context of *Talking Pictures*,[3] The decision below thus makes a mockery of *Talking Pictures*, by telling patentees that if they follow the practice approved in that case, they will be deemed guilty of misuse.

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3. RCA's form of notice is quoted in the opinion of District Judge Byers; 16 F. Supp. 293, 295.

(2) The decisional law on misuse as enounced by the Courts of Appeals, particularly since the 1952 Patent Act, is not certain or consistent, and the decision below is in conflict with decisions of other Courts of Appeals.

(a) *Vulcan Mfg. Co. v. Maytag Co.*, (C.A. 8, 1934) 73 F. 2d 136, was decided not long after this Court enounced the misuse doctrine in *Carbice Corporation of America v. American Patents Development Corp.*, (1931) 283 U.S. 27. The court held that the condition of the license there challenged—"that the patented matters should be used only in connection with a particular type of washing machine"—was "reasonably within the reward of monopoly granted by the patent" and was lawful (p. 138), and that a patentee "is not compelled to choose between granting full and complete use under the patent or granting no use" (p. 139),[4] and enforced the patent. Under the decision below in the instant case, a patentee is compelled to choose between granting full and complete use under the patent or not using the invention in apparatus of his own manufacture, under penalty of having his patent held unenforceable.

(b) In *Great Lakes Equipment Company v. Fluid Systems, Incorporated,* (C.A. 6, 1954) 217 F. 2d 613, the court had to deal with the sale of oil burning systems, some parts of which, such as electrical transformers, were old, albeit the transformers employed in the systems were of special design. The court held (p. 619):

"The District Court found, we think correctly, that there is no evidence that plaintiff by its course of

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4. This Court granted certiorari, 293 U.S. 553, but the case was dismissed by stipulation, 294 U.S. 734.

business attempted or intended to obtain a monopoly in the sale and installation of the unpatented parts of its combination system. As pointed out by the court, the pieces of the system are not sold at a price per piece, but the system is quoted as a complete unit and installation. If the purchaser wishes to have plaintiff install its system and has no choice with respect to the type of transformer or piece of equipment, the fact that plaintiff specifically adapts non-patented parts and sells them in the installation in no sense constitutes a monopoly."

The patent involved in *Great Lakes* was also litigated in the Second Circuit; *Electric Pipe Line, Inc. v. Fluid Systems, Inc.*, (C.A. 2, 1956) 231 F. 2d 370 and 250 F. 2d 697. Misuse was alleged there in that the patent owner had attempted "to bring unpatented components [e.g., electrical transformers and thermostats] within the protection of said Letters Patent and to control competition in the unpatented components contrary to public policy and in violation of the antitrust laws". In the earlier of the two decisions cited, the Court said (pp. 371-2):

"While these component parts are unpatented and in a sense old and well-known, those sold by defendant are especially modified or designed for use with the 'Lines Thermal Electric System.' Judge Anderson found that defendant had no intention of preventing the sale of these items for use outside of its patented oil transportation system. We see no reason to disturb this finding.

* * * * * * *

"In this case, the sale of unpatented components is incidental to the sale of the system as a

whole, even though Fluid's revenue is derived from the sale of the components. Where the owner of a combination patent designs the installation and guarantees its performance, it is not an unreasonable use of the patent to insist that the components of the patented system be obtained from it."

In the accounting which followed, the infringer renewed its argument, contending that the patent owner "must apportion profits resulting from the sale of the system to exclude revenues derived from the unpatented component parts" (p. 700).

"To do otherwise, says [the infringer], is tantamount to saying that Fluid Systems was entitled to use the patent to compel its customers to buy their accessories from it. But this is precisely what we held Fluid Systems could do and not violate the antitrust laws.

* * * * * * * *

"Further, the patent here involved gave value to the components which otherwise would have been useless for the purposes involved and would not have been sold by Electric Pipe or anyone else".

The decision below in the instant case is thus in direct conflict with the decisions in *Great Lakes Equipment* and *Electric Pipe Line*. In neither of those cases did the court invoke 35 U.S.C. 271, but held broadly that there was no misuse, and no violation of *Mercoid*. The patentee invoked Sec. 271 in *Electric Pipe Line* and Judge Medina said (231 F. 2d at p. 372) that the argument "has some merit" but did not find it necessary to the decision.

(c) *Stearns v. Tinker & Rasor,* (C.A. 9, 1957) 252 F. 2d 589; cert. den. 350 U.S. 830, was an action for infringement of a patent for a device, called a "holiday" detector, used to detect flaws in the coatings of underground pipes. A complete holiday detector consisted in part of patented apparatus and in part of unpatented electrical apparatus. Misuse was found, but the Court said (p. 604):

> "The mere fact that an owner of a patented article combines the article with an unpatented article and sells or leases the unit as a whole does not *per se* prove misuse. The holder of a patent can exploit his legally protected monopoly in the patent as best he sees fit, so long as in doing so he does not restrain competition in the unpatented article."

So it was not the insistence upon the sale of the entire unit that constituted the misuse in *Stearns;* misuse was found in the coupling of the patent owner's leasing policies and sales policies in such a way as to require those who desired to use the patented article to pay a premium on the unpatented staple artieles used as component parts of the whole apparatus, as though the whole was patented. No like coupling of leasing and selling policies appears in the instant case.

The opinion of the Court of Appeals in *Stearns* says (p. 604) that *Vulcan v. Maytag, supra,* is of no present assistance because it antedates "later Supreme Court interpretations of the misuse and contributory infringement doctrine." But *Vulcan v. Maytag* still stands in the Eighth Circuit.

The opinion also mentions the *Great Lakes Equipment* and *Electric Pipe Line* cases, *supra,* but says they

are dissimilar on their facts in that the component parts in those cases [as in the instant case] were especially modified or designed for use in the patented system whereas in *Stearns* the transformers and the like were of a common commercial design. It says (p. 604) that the use of parts of special design "might bring Section 271 (d) of 35 U.S.C.A. into play."

The opinion in *Stearns* thus evidences uncertainty and inconsistency between Circuits, and conflict with the decision in the instant case.

(d) The trial court below, affirmed by the Court of Appeals, said that it was immaterial whether Baldwin's unit devices (e.g., load cells having a Simmons gage as a component) were patented as an entirety — that the refusal to sell the gages *per se* for use therein was misuse nevertheless.

Hunt v. Armour & Co., (C.A. 7, 1950) 185 F. 2d 722, was a suit for infringement of a patent for apparatus used in picking feathers from poultry. Some of the claims covered a machine as a whole while other claims of the same patent covered the "feather-picking fingers" *per se*. The defendant purchased patented fingers from a licensee of the patent owner and incorporated them in an apparatus which came within the scope of the machine claims. The court held that, absent a clear intent to do so, the sale of the fingers did not imply any license under the machine claims and that it was not a misuse of the finger claims to exclude the purchaser from the use of them in the combination covered by the machine claims.

The court predicated this conclusion in *Hunt v. Armour* on the rule of law that "each claim of a patent constitutes a separate grant of monopoly". The conflict with the decision in the instant case is no less real merely because Baldwin's combination claims appear under a patent number different from that on the gage claims *per se*, some of them in divisional patents.

CONCLUSION

The petition presents questions whose resolution will resolve conflicts and uncertainties which have arisen in the lower federal courts and will have immediate importance far beyond the particular facts and parties involved. The petition should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 12,846

BALDWIN-LIMA-HAMILTON CORPORATION AND EDWARD E. SIMMONS, JR.
Plaintiffs-Appellants
v.
TATNALL MEASURING SYSTEMS COMPANY AND THE BUDD COMPANY,
Defendants-Appellees.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Argued May 7, 1959

Before McLAUGHLIN, KALODNER and STALEY,
Circuit Judges.

Opinion of the Court

(Filed May 20, 1959)

PER CURIAM.

Plaintiff appeals from the finding of misuse of the suit patent.

We agree with the district court that the test body is not an element of the patent which is for a gage per se.

The limitation on use of the gage imposed by appellant, as found by the district court, consists of a flat refusal to sell it to prospective purchasers desirous of using it with strain sensitive apparatus of a type manufactured by Baldwin or it licensees unless the purchase included such apparatus from Baldwin or its licensees. The district court was clearly right in holding: "The enforcement of this policy constituted an illegal expan-

sion of the monopoly conferred by the Simmons patent on the gage per se beyond that contemplated by the patent grant. This misuse is a bar to the enforcement of the patent against the defendants regardless of whether plaintiffs' activities constituted a violation of the anti-trust laws."

The judgment of the district court will be affirmed upon the opinion and particularly the supplemental opinion of Judge Steel.

SUR PETITION FOR REHEARING

Present: BIGGS, *Chief Judge*, and McLAUGHLIN, KALODNER, STALEY and HASTIE, *Circuit Judges*.

Opinion of the Court

(Filed August 5, 1959)

PER CURIAM.

The petition for rehearing, if anything, makes it clearer than ever that 1. the test body is not an element of the patent which is for a gage per se, and 2. that appellant Baldwin-Lima-Hamilton Corporation illegally limited the use of the Simmons gage by refusing to sell it by itself to prospective customers who wished to use it with strain sensitive apparatus of a type manufactured by appellant Baldwin-Lima-Hamilton Corporation and its licensees.

The petition for rehearing will be denied.

BIGGS, *Chief Judge*, dissenting.

The court has extended greatly the patent misuse principle. This extension, applied full force, could pro-

hibit a patentee from employing his invention as a component even in an apparatus of his own manufacture.

I conclude that the test body is a material element in the claimed invention, as the court below first held, and that Section 271, Title 35, U.S.C., may be applicable.

The issues involved are of such far-reaching importance as to render desirable rehearing before the court en banc.

For these reasons I must dissent from the order denying rehearing.

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IN THE

Supreme Court of the United States

October Term, 1959.

No. 411.

BALDWIN-LIMA-HAMILTON CORPORATION and EDWARD E. SIMMONS, JR.,

Petitioners,

v.

TATNALL MEASURING SYSTEMS COMPANY and THE BUDD COMPANY,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit.

BRIEF FOR RESPONDENTS IN OPPOSITION AND APPENDIX.

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IN THE

Supreme Court of the United States

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No. 411.

BALDWIN-LIMA-HAMILTON CORPORATION AND EDWARD E. SIMMONS, JR.,

Petitioners,

v.

TATNALL MEASURING SYSTEMS COMPANY AND THE BUDD COMPANY,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

BRIEF FOR RESPONDENTS IN OPPOSITION.

QUESTION PRESENTED.

Did the Courts below properly hold that it was a misuse of the strain gage patent for petitioner Baldwin: (a) to allocate fields of use among competitors in strain gages which had been freed from the patent by sale; and (b) to tie to the use of strain gages sold by Baldwin the purchase of apparatus not covered by the patent?

STATUTE SOUGHT TO BE INVOKED.

Petitioners seek to invoke Title 35 U. S. C. § 271(d) to avoid the conclusion that they have misused the patent. The statute is inapplicable unless this Court reverses the finding of the District Court, expressly affirmed on two occasions by the Court of Appeals, that the patent covers only a strain gage *per se* and does not cover machines or apparatus to which the gage may be affixed.

STATEMENT OF THE CASE.

Petitioners Simmons and Baldwin sued respondents for infringement of the Simmons patent (now expired) relating to strain gages. The District Court found that the patent was valid and infringed but held that it was unenforceable because it had been misused.[1] Simmons was the owner of the patent and Baldwin held an exclusive license under it. While Baldwin had the right to sublicense others it chose to exploit the patent primarily by manufacturing and selling the gages. Baldwin employed a restrictive scheme in selling the gages which formed the basis for the conclusion of the District Court that the patent had been misused. The Court of Appeals affirmed per curiam on the opinion and supplemental opinion of the District Court and denied a petition for rehearing.[2]

Every part of a machine or structure which is subjected to a load (stress) experiences strain (change in length). The gage manufactured and sold by Baldwin is intended to be used to measure strain. It consists of a fine wire (filament). In use it is glued (bonded) to the

1. 169 F. Supp. 1 (E. D. Pa., 1958). Relevant portions of the District Court's opinions are printed in the Appendix to this Brief.

2. 268 F. 2d 395 (C. A. 3, 1959).

part (test body) subjected to strain so as to respond to the change in length of the part. The gage operates on the principle that the electrical resistance of a fine wire changes as its length is changed. An electric current is passed through the gage and by measuring the change in the resistance of the gage, its strain and the strain of the part to which it is glued can be determined. The parts (test bodies) to which the gage can be and has been affixed are a virtually limitless number of well known objects. The District Court found that the test body was not an element claimed by the patent. The Court of Appeals expressly affirmed this finding both in its original opinion and in its opinion on petition for rehearing.

The strain gage manufactured by Baldwin is subject to two general categories of use: first, in the field of structural testing or stress analysis when the gage is used in a temporary expendable manner; and second, as a part of some other machine or apparatus in which the gage performs a permanent operating, controlling, or service function. Baldwin's policy was to sell its gages to the public for use only in the first or temporary field. In this field the gage was either destroyed during a test or discarded upon completion of a test. Baldwin reserved the second or permanent field for itself. This latter field included all permanent uses of the gage.

As one of the means of effectuating this policy Baldwin sold its strain gages in packages bearing a restrictive notice. The District Court found that vendees of gages sold with this notice were prohibited from using the gages except in a temporary expendable way for testing or stress analysis purposes. It also found that by the notices Baldwin reserved to itself all fields in which the gages could be used permanently to perform an operating, controlling or service function in a machine, apparatus or device.

Some of the reserved fields were exploited by Baldwin for the manufacture and sale of equipment which utilized the gage to perform an operating, controlling or service

function. Other fields not exploited by Baldwin itself were the subject of so-called "commercial licenses."[3]

In its commercial licenses under the patent Baldwin granted no right to manufacture strain gages.[4] On the contrary, it agreed to sell gages to the licensee for use only in certain specified apparatus which Baldwin authorized the licensee to manufacture. The District Court found that the effect of these provisions was that the gages sold by Baldwin to the licensee could be resold only as an element in the specified apparatus. Each commercial license was restricted to apparatus of a particular type which did not compete with apparatus to be manufactured by any other licensee or by Baldwin. There were at least nine major licenses of this kind.

The District Court found that Baldwin allocated fields of use among competitors in the following fashion:

1. The purchasers of gages from Baldwin under notice were precluded from using them in a permanent manner and could not compete with Baldwin in the manufacture and sale of apparatus which made a permanent use of them.

2. Purchasers of gages from Baldwin under commercial licenses were restricted to a temporary expendable use of them or to a permanent use in the field of the license. Since these fields were non-competitive with Baldwin and non-competitive with one another, the licensees could not use the gages purchased by them in the manufacture of apparatus which competed with that manufactured by Baldwin or by another licensee.

---

3. Petitioners contend that the District Court upheld the propriety of Baldwin's license agreements (Petition, p. 6). On the contrary, the Court concluded that the restrictions on use of gages contained in the commercial licenses were illegal *per se*. 169 F. Supp. at 30. The only agreements which it sustained were certain airplane licenses not involved here. See 169 F. Supp. at 25-28.

4. Baldwin categorically announced that it could not permit a source of commercial manufacture other than itself.

The District Court also found that Baldwin tied the use of gages sold by it to the purchase of apparatus not covered by the Simmons patent. To enhance its profit on the gage *per se*, Baldwin compelled anyone who desired to use a gage as an element in apparatus manufactured by Baldwin or by its commercial licensees to purchase the apparatus from Baldwin or its licensees regardless of whether such apparatus could be obtained from other manufacturers. Had Baldwin not restricted the use which could be made of the gages which it sold, the buyer of the gages could have purchased apparatus from any supplier of his choice and used the Baldwin gages in connection with it.

The District Court held that Baldwin's allocation of fields of use among competitors constituted misuse of the patent. It reasoned that Baldwin's sales under notice and to the commercial licensees exhausted the patent monopoly; that the legality of the allocations was to be judged by general law; and that, so considered, these allocations were illegal *per se* under the Sherman Act, as construed in *Addyston Pipe & Steel Co. v. United States*, 175 U. S. 211 (1899).

The District Court also held that Baldwin's "tying" the use of the gages which it sold to the purchase of apparatus not covered by the patent constituted a misuse under the rationale of *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488 (1942) and *International Business Machines Corp. v. United States*, 298 U. S. 131 (1936).

In its petition for rehearing in the District Court, Baldwin contended that its tying arrangement was justified because the apparatus (test body) was a part of a patented combination and hence the entire structure, both apparatus and gage, was subject to the monopoly of the patent. The District Court rejected this contention on the ground that the apparatus (test body) was not an element of the patent. It also determined that even if the test body were an element of the patent, it was not a "material part of the invention," and therefore 35 USC § 271(d) was inapplicable.

The Court of Appeals affirmed *per curiam* "upon the opinion and particularly the supplemental opinion of Judge Steel." It did not discuss the first ground of the District Court's decision (allocations of fields of use among competitors). With respect to the second ground of the District Court's decision (illegal tying) it made a specific finding that "the test body is not an element of the patent which is for a gage *per se*" and concluded that Baldwin's tying practices constituted misuse of the patent. In its opinion denying Baldwin's petition for rehearing, the Court of Appeals reiterated its previous finding and conclusion. Chief Judge Biggs dissented from the denial of this petition, apparently on the assumption that Baldwin did nothing more than incorporate the gage in apparatus of its own manufacture and refuse to sell the gage *per se*.

ARGUMENT.

A. The Courts Below Have Not Decided Any Important Questions of Federal Law Not Already Decided by This Court.

(1) It is not disputed that Baldwin's notices and commercial licenses have accomplished an allocation of fields of use among competitors. Nor is it questioned that allocations of fields of use among competitors in unpatented subject matter, like agreements among competitors to allocate or divide marketing territories, are illegal *per se* under Section 1 of the Sherman Act. *Timken Roller Bearing Co. v. United States*, 341 U. S. 593 (1951); *Addyston Pipe & Steel Co. v. United States*, 175 U. S. 211 (1899); *Pfotzer v. Aqua Systems, Inc.*, 162 F. 2d 779 (C. A. 2, 1947); *United States v. Aluminum Company of America*, 148 F. 2d 416 (C. A. 2, 1945).

Petitioners' claim has been that the allocation of competitive fields is justified by the patent. Their position is untenable because this Court has established conclusively the principle that upon the authorized sale of a patented article the monopoly of the patent ends and thereafter the article may not be controlled by virtue of the patent. *United States v. Univis Lens Co., Inc.*, 316 U. S. 241, 250-252 (1942); *United States v. Masonite Corporation*, 316 U. S. 265, 277-278 (1942); *United States v. General Electric Company*, 272 U. S. 476, 489 (1926); *Boston Store of Chicago v. American Graphophone Company*, 246 U. S. 8, 24, 25 (1918); *Bauer & Cie v. O'Donnell*, 229 U. S. 1, 17 (1913); *Keeler v. Standard Folding Bed Company*, 157 U. S. 659, 666 (1895). This principle cannot be avoided by placing qualifying restrictions on the use to which the purchaser may put the patented article. Such restrictions are ineffective to keep the article under the patent monopoly after it has been sold. *Boston Store of Chicago v. American Graphophone Company*, 246 U. S. 8, 24-25 (1918).

Once the patent has been exhausted by an authorized sale, restrictions which the seller attempts to impose upon the article to be effective after its sale must be judged by general law, *Keeler v. Standard Folding Bed Company*, 157 U. S. 659, 666 (1895). When Baldwin's allocations of fields of use among competitors are so evaluated, it is clear that they violate the Sherman Act.

(2) It is not disputed that Baldwin sold gages *per se*. (Petition p. 6). The Courts below found upon the entire record that the effect of Baldwin's marketing policy was to preclude the purchasers of these gages from using them except in a temporary expendable way and to require the gage purchasers who desired to use them in a permanent fashion to buy both the gages and the apparatus with which they were to be used from Baldwin or its commercial licensees. The Courts below also found that this policy was enforced regardless of whether similar apparatus could be obtained from other manufacturers and despite the fact that the apparatus was not covered by the patent. The conclusion that this tying arrangement constituted an illegal expansion of the monopoly of the patent on the gage *per se*, and bars enforcement of the patent, admits of no debate. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488 (1942); *International Business Machines Corporation v. United States*, 298 U. S. 131 (1936).

The Courts below have not decided any important question of federal law not already decided by this Court but to the contrary have decided the questions presented in conformity with the decisions of this Court.

B. The Reasons Relied Upon by the Petitioners for the Allowance of the Writ Do Not Justify Its Issuance.

(1) Petitioners' first reason in support of the Writ assumes a factual situation not presented by the record. Baldwin did not merely sell apparatus incorporating the gages and refuse to sell the gages *per se*. The facts here

are that for many years Baldwin sold large quantities of gages *per se*. These gages were sold under restrictions which prohibited the purchasers from incorporating them permanently in other apparatus. This apparatus could have been made by the purchasers and was available from manufacturers other than Baldwin or its licensees. The restrictions on use of the gages prevented the purchasers from securing the apparatus from such other sources and required its purchase from Baldwin or its licensees. Accordingly, the Courts below found that Baldwin's policy reduced or eliminated competition which otherwise would have been encountered in selling apparatus. Since the patent related only to the gage *per se* and did not cover the apparatus, its use to eliminate competition in apparatus and require the purchase of such apparatus from Baldwin or its licensees was an extension of the monopoly of the patent.

The Petition seeks to create the impression that Baldwin's restrictive practices were limited to requiring the purchase from Baldwin of specially designed apparatus (*i.e.*, unitary devices) such as load cells to which the gage had been affixed by Baldwin. This approach ignores Baldwin's allocations of fields of use among competitors. Moreover, it is contrary to the District Court's findings that Baldwin required the purchase with Baldwin gages of such standard apparatus as oil field tools and equipment, machine tools, and platform scales, and that the load cells and other equipment could have been purchased from suppliers other than Baldwin or its licensees.

The crankshaft analogy relied on by petitioners does not accord with the record facts. The correct analogy stated in similar terms would be as follows: An engine maker invents an improved crankshaft which is capable of either a temporary (for example, experimental) or permanent use. He sells the patented crankshaft under restrictions which permit its temporary use but prohibit its permanent incorporation in engines. Such engines,

which are not covered by the patent, can be manufactured by the purchaser of the crankshaft or are available from other sources. The owner of the crankshaft patent manufactures such engines and incorporates the patented crankshaft in them. By its restrictions on the use of the crankshafts which it sells, the patent owner is enabled to reduce or eliminate competition between itself and other manufacturers in engines and to require the purchase from it of such engines embodying the crankshafts. The patent on the crankshaft, therefore, has been used not merely to exclude competition in the manufacture and sale of patented crankshafts but also to exclude competition in engines not covered by the patent and to require the purchase of such engines from the patent owner.

The decisions below do not prevent Baldwin from selling the gages when incorporated in apparatus not covered by the patent nor from refusing to sell the gage *per se*. They hold merely that when Baldwin chooses to sell the gages *per se* it cannot impose upon the purchasers restrictions on the use of the gages which eliminate competition in unpatented apparatus, require the purchase of such apparatus from Baldwin, and effect an illegal allocation of fields among competitors. Accordingly, the decisions cannot have the consequences apprehended by Chief Judge Biggs.

(2) The second reason assigned by petitioners in support of the Writ is that the decisions below preclude a patent owner from granting an exclusive license in a limited field, a type of license sustained by this Court in *General Talking Pictures Corp. v. Western Electric Co., et al.*, 304 U. S. 175 (1938), reheard at 305 U. S. 124 (1938).

The decisions below have no such effect.

Baldwin's so-called commercial licenses were not licenses at all insofar as strain gages are concerned. Unlike the *General Talking Pictures* license, they did not confer upon the licensee the right to manufacture the

patented product, strain gages. On the contrary Baldwin agreed to sell gages to the licensee for use only in certain specified apparatus (not covered by the patent) which Baldwin authorized the licensee to manufacture. The District Court found that the effect of these provisions was that the gages sold by Baldwin to the licensee could be resold only as an element in the specified apparatus. Thus, the "licenses" amounted to nothing more than restrictions imposed by Baldwin on the use and disposition of the gages which the licensee had purchased from it and which had been freed from the patent by an authorized sale.[5] Since each license defined apparatus of a particular type which did not compete with apparatus to be manufactured by any other licensee or by Baldwin, the District Court found that there had been an allocation of fields in unpatented subject matter (gages which had been freed from the patent by sale).

There is no conflict between the decisions below and the *General Talking Pictures* case. *General Talking Pictures* recognized that a patent owner might grant a license to manufacture a device for sale only in a certain field. It held that the patent owner could maintain an action for infringement against a purchaser from the manufacturing licensee where both were deliberate infringers because the licensee had manufactured outside the scope of his license and the purchaser had knowledge of that fact. *General Talking Pictures* did not hold that the manufacturing patentee, manufacturing licensee or other *authorized* seller could, by virtue of the patent, impose restrictions on the use of the patented article effective after sale.

5. The distinction between the limited license involved in *General Talking Pictures* and "licenses" which amount to nothing more than restrictions on the use of articles sold to the licensee was recognized in *United States v. The Consolidated Car-Heating Co., Inc.*, 87 U. S. P. Q. 20 (S. D. N. Y. 1950) (not reported in the Federal Supplement). That case held illegal under the antitrust laws restrictions identical to those accomplished by Baldwin's commercial licenses.

nor did it determine that such restrictions are to be judged other than by general law, whether accomplished "under the guise of license or otherwise", *Boston Store of Chicago v. American Graphophone Company*, 246 U. S. 8, 24, 25 (1918). Finally *General Talking Pictures* did not sustain restrictions on use which accomplish both an allocation of fields among competitors in unpatented subject matter and a tying arrangement.

(3) Petitioners assert as the third ground in the support of the Writ that Baldwin's tying practices are justified by 35 U. S. C. § 271(d).

As the Petition itself admits, however, to apply Section 271(d) this Court would be compelled to reverse the finding of the District Court, expressly affirmed on two occasions by the Court of Appeals, that the patent covers only a gage *per se* and does not include the test body. Moreover, this Court would be required to reverse the further finding of the District Court that even if the test body were claimed by the patent it is not "a material part of the invention."

The prior art, as disclosed by the voluminous testimony and numerous exhibits, the claims, the specifications, the divisional applications, and the file wrapper completely sustain the findings below. In addition, to accept petitioners' contention and to construe the test body as an element of the patent would render the patent invalid. The evidence introduced by petitioners establishes that the gages sold by Baldwin have been bonded to all kinds of test bodies (not merely to so-called "unitary devices" such as load cells) for the purpose of measuring strain in such test bodies. For example, they have been affixed to the nuclear submarines Swordfish and Skipjack; to a steel sphere buried in the Granite Mountain in British Columbia for the purpose of measuring the strength of the mountain; to a radar platform in the Atlantic Ocean known as Texas Tower No. 2; to a satellite search radar 85 feet in diameter; to a 50 foot Hortonsphere used to store butadiene gas

under pressure; to a mechanical punch press; to a flying shear for a steel mill; to a PBY-6A airplane used to compute vertical air currents in cumulus clouds; to helicopter blades and hubs; and to all members of various types of airplanes.

If the Simmons patent were read so as to cover these test bodies (and if it covers any test body, it must cover all), it would be invalid for over-claiming. See *Lincoln Engineering Co. v. Stewart-Warner Corp.*, 303 U. S. 545 (1938). Consequently, the Courts below were correct in giving the patent the lawful contruction which does not include the test body. *Williams Mfg. Co. v. United Shoe Machinery Corp.*, 316 U. S. 364 (1942).

(4) Petitioners assert as the fourth ground in support of the Writ that the Courts below held that use of the restrictive notices alone constituted misuse of the patent. As previously demonstrated, however, the notices were merely one means employed to effectuate the illegal allocation of fields and tying arrangement. Consequently, the question of whether the use of such a notice, without more, constitutes a misuse is not presented here.

(5) As the fifth reason in support of the Writ, petitioners urge that the decision below conflicts with decisions of other Courts of Appeals. The asserted conflicts are nonexistent.

(a) In *Vulcan Mfg. Co. v. Maytag Co.*, 73 F. 2d 136 (C. C. A. 8, 1934), cert. granted 293 U. S. 553, cert. dismissed 294 U. S. 734 (1935), the patents covered a wringer and gear mechanism for use on power-operated washing machines. The patentee licensed the defendant to manufacture and sell such wringers and mechanism for use only on a particular type of washing machine made by the defendant. The Court held that this condition did not invalidate the license.

Unlike the present case, *Vulcan* did not involve the authorized sale of a patented article which freed the article from the patent, accompanied by restrictions on use effective after the sale. *Vulcan* presented the same situation as that in the *General Talking Pictures* case (an infringing sale of the patented article) and is inapplicable for the reasons set forth in the discussion of that case, *supra* pp. 10-12.

(b) *Great Lakes Equipment Company v. Fluid Systems, Inc.*, 217 F. 2d 613 (C. A. 6, 1954) and *Electric Pipeline, Inc. v. Fluid Systems, Inc.*, 231 F. 2d 370 (C. A. 2, 1956), 250 F. 2d 697 (C. A. 2, 1957), involved a combination patent on a system for transporting viscous oil, electrically heated. The patentee's system included old, well-known components (such as tank units, burners, pipe joints, and transformers), which were not patented separately but were claimed in combination. Both Courts of Appeals held that the patentee's refusal to sell anything but the complete patented system, including the unpatented components, did not constitute misuse of the combination patent.

As has been demonstrated, the Courts below did not hold that Baldwin misused the patent by selling the gage only when incorporated in unpatented apparatus and refusing to sell the gage *per se*. What the Courts below held was that Baldwin could not, by selling its gages *per se* and restricting their use by the purchaser, allocate fields of use among competitors in violation of the Sherman Act and effect an illegal tying agreement. In the *Fluid Systems* cases, the patentee did not market any component of the patented combination separately and restrict the purchaser as to the use which could be made of it. Moreover, in the *Fluid Systems* cases, the Courts found that the patent covered the combination and furnished justification for control of the separate components. In this case the Courts below have found that the patent is only for the gage

per se and furnishes no basis for control of the unpatented apparatus. The *Fluid Systems* cases are, therefore, totally inapposite on the facts.

(c) Petitioners cite *Stearns v. Tinker & Rasor*, 252 F. 2d 589, 604 (C. A. 9, 1957), for the proposition that "the mere fact that an owner of a patented article combines the article with an unpatented article and sells or leases the unit as a whole does not *per se* prove misuse." As previously indicated, the question of whether sale of unpatented apparatus incorporating a patented article constitutes misuse in itself is not presented in this case. Accordingly, the observation of the Court of Appeals in the *Stearns* case is not pertinent here.

(d) *Hunt v. Armour & Co.*, 185 F. 2d 722 (C. A. 7, 1950), involved a patent having one group of claims which covered in combination a machine for picking poultry and the feather picking fingers of the machine and another separate group of claims covering only the fingers *per se*. The Court regarded this as two separate patents, one on the machine and one on the fingers. It held that a licensee's sale of the fingers did not authorize a use of them which infringed the combination machine claims. Accordingly it concluded that the patentee had not misused the combination machine claims by enforcing them against an infringing machine which incorporated fingers purchased from the licensee. In this case, the Courts below were not presented with a question like that in the *Hunt* case, of whether it would have been a misuse for Baldwin to attempt to enforce against purchasers of strain gages some patent not in suit which covered a combination of the gage with other apparatus. The patent in suit covered only the gage *per se*, not a combination of the gage and apparatus. Consequently the District Court properly concluded that *Hunt* was inapplicable.

Moreover, unlike the patentee in *Hunt*, which merely sued on its patent, Baldwin employed contractual restric-

tions which precluded purchasers from making any permanent use of the gages with any type of apparatus. Whatever may be the scope of the Baldwin patents not in suit, they cannot justify such a sweeping prohibition.

CONCLUSION.

This case presents nothing more than the application of well-settled principles to a dispute between the parties over whether damages are to be awarded for infringement of an expired patent. The Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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APPENDIX.

Extracts From Opinion and Supplemental Opinion of the United States District Court for the Eastern District of Pennsylvania, Edwin D. Steel, Jr., J., 169 F.Supp. 1, 25, 28-33 (1958).

* * * * * *

(b) Patent Misuse

* * * * * *

2. *Restrictions on Use of Gages after Sale.* Baldwin was an exclusive licensee of the Simmons patent with the right to sublicense. Nevertheless, Baldwin chose to exploit the patent primarily by manufacturing and selling the gages. The gages were subject to two general categories of use: first, in the field of structural testing or stress analysis when the gage was used in a temporary expendable manner; and second, as a part of some other machine or apparatus in which the gage performed a permanent operating, controlling or service function.

Baldwin sold the Simmons gages accompanied by notices and under "licenses". Vendees of gages sold with notices were prohibited from using the gages except in a temporary expendable way for testing or stress analysis purposes. By the notices Baldwin reserved to itself all fields in which the gages could be permanently used as an operating, controlling or service function as part of a machine, apparatus or device. Some of the reserved fields were exploited by Baldwin by the manufacture and sale of equipment and devices which utilized the Simmons gage to perform an operating, controlling or service function. Fields not so exploited by Baldwin were the subject of so-called "commercial licenses" which Baldwin granted to other

manufacturing concerns. While these licenses were non-exclusive, Baldwin's policy was to issue only one of these licenses for each field of use. See footnote 27, 169 F.Supp. at page 27, supra.[*] Under each license Baldwin sold gages to the licensee but with a provision that the gages could be resold only as an element in apparatus manufactured by the licensee. The result was that Baldwin was able to manufacture and sell devices embodying the Simmons gage as an operating, controlling or service element without competition from others, and its commercial licensees were able to sell equipment embodying the Simmons gage as a permanent element in fields which were non-competitive with each other.

Agreements among competitors to allocate or divide marketing territories for unpatented articles are unreasonable *per se* and void under the Sherman Act. Addyston Pipe & Steel Co. v. United States, 1899, 175 U.S. 211, 20 S.Ct. 96, 44 L.Ed. 136. The arrangements between Baldwin and its vendees could not survive the Sherman Act if the

[*] Footnote 27 reads as follows:

"27. Examples of commercial licenses granted pursuant to these policies are as follows: Byron Jackson Company (D-311) —restricted to the field of oil field tools and equipment; Waugh Equipment Company (D-277)—restricted to the field of weighing airplanes by permanently applying the gauge to the surface of a normally existing structural element; Brown & Sharpe Mfg. Co. (D-312)—restricted to certain machine tools and dimensional measuring tools; Cox and Stevens Aircraft Corporation (D-320) —restricted to compression cells for aircraft weighing and platform scales; Industrial Electronics (D-323)—restricted to certain torsional vibration pickups, linear vibration pickups, and fluid pressure sensitive units; Polyphase Instrument Company (D-346)—restricted to the field of spark plugs for internal combustion engines; Instron Engineering Corporation (D-347) restricted to certain enumerated equipment to be sold only for use in testing textiles and other non-metallic fibrous material; the Foxboro Company (D-351)—restricted to the field of fluid pressure measuring devices of the diaphragm type; Fredric Flader, Inc. (D-365)—restricted to the field of accelerometers and fluid pressure pickups of the sylphon bellows type."

gages had been unpatented. Defendants say that although the Simmons gages were patented, the monopoly of the patent was exhausted by the sale of the gages, and that thereafter they had the status of unpatented articles of commerce. The validity of this argument depends upon whether under the patent laws a patentee who sells a patented article may validly restrict the use which the vendee may make of it.

The Supreme Court has said on many occasions that the monopoly of a patentee remains so long as he retains ownership of the patented article, but that the monopoly ends with the sale of the article and that the patentee may not thereafter, by virtue of his patent, control the use of the article. The statement in United States v. Univis Lens Co., 1942, 316 U.S. 241, 250-252, 62 S.Ct. 1088, 1093, 86 L.Ed. 1408 is typical:

> "* * * His monopoly remains so long as he retains the ownership of the patented article * * * and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article. Bloomer v. McQuewan, 14 How. 539, 549-550, 14 L.Ed. 532; Adams v. Burke, 17 Wall. 453, 21 L.Ed. 700; Hobbie v. Jennison, 149 U.S. 355, 13 S.Ct. 879, 37 L.Ed. 766. * * *"
>
> * * * * * *
>
> "* * * The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers. * * *"

Equally terse statements to the same effect are found in United States v. General Electric Company, 1926, 272 U.S. 476, 489, 47 S.Ct. 192, 71 L.Ed. 362; United States v. Masonite Corporation, 1942, 316 U.S. 265, 277-278, 62 S.Ct. 1070, 86 L.Ed. 1461; Bauer & Cie v. O'Donnell, 1913, 229 U.S. 1, 17, 33 S.Ct. 616, 57 L.Ed. 1041; and Keeler v. Standard Folding-Bed Company, 1895, 157 U.S. 659, 666, 15 S.Ct. 738, 39 L.Ed. 848.

It is true that these statements were made either in cases such as Keeler v. Standard Folding-Bed Company, supra, which involved a sale without a restraint on use, or in cases such as Bauer & Cie v. O'Donnell, supra; United States v. General Electric Company, supra; United States v. Univis Lens Co., supra; and United States v. Masonite Corporation, supra, in which patentees attempted to fix the resale price of patented articles; and that cases in each of these groups may possibly be distinguished from that at bar wherein a limitation on use is sought to be imposed in connection with an initial sale by a patentee. Nevertheless, the consistency with which the Supreme Court has asserted for over half a century that the patent laws afford no authority for a patentee to control the use to which a patented article may be put after the patentee has sold it, and the failure of the Supreme Court to qualify in any way the reach of this principle make me disinclined to write exceptions into the principle at odds with its inherent comprehensiveness.

So that what the Supreme Court has said on the subject ends the matter. The restrictions which Baldwin imposed upon its licensees and purchasers under notice find no support in the patent laws and constitute an effort by Baldwin to enlarge the patent monopoly beyond the point contemplated by the patent laws. The validity of the restraint on use to which Baldwin's vendees were subjected must be upheld, if at all, not as an incident of the patent grant, but as a matter of general contract law. So tested, the allocation of fields of use are illegal *per se* under the principle enunciated in Addyston Pipe & Steel Co. v. United States, supra, in construing the Sherman Act.

Furthermore, Baldwin's policy of limiting the use of its gages after their sale had a more basic vice. Baldwin realized from the beginning that profits on the sale of Simmons gages *per se* would be minimal and that if it was to secure a reasonable return it would have to be obtained

from the sale, either by itself or by its licensees, of apparatus in which the Simmons gage was embodied as a permanent, operating, controlling, or service element. Accordingly Baldwin established a policy for the marketing of its gages which compelled anyone who desired to use a Simmons gage as an element in an apparatus of a type manufactured by Baldwin or by its licensees, to buy the apparatus from Baldwin or its licensees, regardless of whether similar apparatus could be obtained from other manufacturers. To illustrate, if anyone desired to use a Simmons gage as an element in a load cell (a device for weighing airplanes) he could do so only by purchasing both the load cell and the gage from Baldwin. Similarly, if anyone desired to use a Simmons gage as an element in a weight indicator, tong-torque indicator, or drilling fluid pressure indicator for use in connection with oil field tools or equipment, he could do so only by purchasing both the indicator and the gage from Byron-Jackson, one of Baldwin's commercial licensees[29]. Had Baldwin not restricted the use which could be made of the gages which it sold, the buyer of the gages could have purchased load cells or indicators from any supplier of his choice and used the gages in connection with them.

When Baldwin himself was the seller, as in the case of the load cells, the competitive benefit which it received in the restraint on the use of its gages is obvious. But Baldwin obtained additional rewards from the enhanced competitive position which some of its licensees obtained by virtue of the use restriction. Thus, Baldwin not only made a profit when it sold strain gages to Byron-Jackson, but when Byron-Jackson sold weight indicators embodying the gage as an element, Byron-Jackson was required to pay Baldwin a royalty on all "attachments" and "measuring and or

29. See footnote 27, 169 F.Supp. at page 27, supra, for a list of other licensees which received similar competitive benefits from Baldwin's marketing policy.

recording instruments" which it sold for use with the indicators [30].

By thus conditioning the right to use Simmons gages as a permanent element solely with equipment purchased from Baldwin or its licensees, Baldwin has used the monopoly of the Simmons patent to further the sale of apparatus with which the gages can be used. The Simmons patent was issued as a reward to Simmons for disclosing his strain gage discovery to the public. The monopoly which Simmons received from the Patent Office for this disclosure was the full recompense which the patent laws contemplated he should have. Baldwin has, however, utilized the patent so as to obtain a benefit beyond the purview of the patent statute. By its marketing policy of the gages Baldwin has been able to reduce or eliminate the competition which it and its licensees might otherwise have encountered in selling devices such as load cells and weight indicators not covered by the Simmons patent. Under the *rationale* of Morton Salt Co. v. G. S. Suppiger Co., 1942, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 and International Business Machines Corporation v. United States, supra, the manner in which Baldwin has "tied" the use of the Simmons gage to the use of apparatus not covered by the Simmons patent sold by it and by its licensees, constituted a misuse of the Simmons patent. That misuse bars the enforcement of the patent against the defendant in a court of equity regardless of whether the "tying" practices resulted in a violation of the anti-trust laws. Morton Salt Co. v. G. S. Suppiger Co., supra, 314 U.S. at page 494, 62 S.Ct. at page 406; see also Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 1947, 329 U.S. 637, 641, 67 S.Ct. 610, 91 L.Ed. 563.

30. The license between Byron-Jackson and Baldwin is typical of the commercial licenses listed in footnote 27, 169 F.Supp. at page 27. Under each the licensee was required to pay royalties to Baldwin based on the licensee's sales price of the machine embodying the Simmons gage or the instrumentation sold for use with the Simmons gage or upon the embodying machinery and the instrumentation.

The record is not clear whether all of the products to which the Simmons gages were "tied" were covered by other Baldwin patents. This, however, is not material. The monopoly which the patent law grants with respect to an article covered by one patent may not be utilized to aid the patentee to exploit another article even though it is covered by another patent. Ethyl Gasoline Corporation v. United States, 1940, 309 U.S. 436, 459, 60 S.Ct. 618, 84 L.Ed. 852. Compare United States v. Paramount Pictures, Inc., 1948, 334 U.S. 131, 157, 68 S.Ct. 915, 92 L.Ed. 1260; Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research, Inc., 1950, 339 U.S. 827, 831, 70 S.Ct. 894, 94 L.Ed. 1312.

35 U.S.C. § 271 is not inconsistent with the foregoing views.

The action must therefore be dismissed notwithstanding the fact that the Simmons patent is valid and infringed.

The statements herein are intended to serve as findings of fact and conclusions of law under Fed.Rules Civ.Proc. Rule 52, 28 U.S.C.A.

Let an order be submitted accordingly.

On Petition for Reargument

A few supplemental observations appear warranted in view of the arguments made by plaintiffs in their petition for reargument.

In contending that Baldwin has not misused the Simmons patent by tying the gage *per se* to the various types of strain sensitive apparatus which it and its licensees sell, plaintiffs assert that the apparatus is part of the patented combination and hence the entire structure—apparatus and gage—is subject to the monopoly of the patent. Plaintiffs point out that at p. 6 of 169 F.Supp., opinion filed on December 1, 1958 the test body is found to be an element of claim 5 of the patent. This finding is now retracted. A closer reading of claim 5 discloses that the test body is not an element of Simmons' invention. While claim 5 mentions the

test body, the reference is simply to explain what strain the gage measures and to describe the bonding of the filament. This reference to the test body does not, without more, make it an element in the claim. Compare Williams Manufacturing Co. v. United Shoe Machinery Corp., 1942, 316 U.S. 364, 369, 62 S.Ct. 1179, 86 L.Ed. 1537.

The distinction between a patent which merely covers a gage *per se* and combination patents which cover a gage *per se* and the apparatus with which the gage is used, is disclosed by comparing the patent in suit with other patents of Simmons' under which Baldwin grants licenses. The patent in suit states that it is "directed to my improved type of strain gage *per se*". Divided out of the application for this patent are patents covering the combination of a strain gage *per se* and specific types of apparatus with which the gage *per se* is used as a component. These divisional patents cover the combination of the gage *per se* when used in conjunction with a dynamometer (Patent 2,316,203), with an explosion pressure gage (Patent 2,327,935), and with a torque measuring apparatus (Patent 2,350,072). In each of the latter three patents the specific type of apparatus with which the gage *per se* is used is an element of the combination patent. In the patent in suit the "test body" with which the gage *per se* is used is not.

Plaintiffs contend that because of the limitations on use which are expressly imposed when Baldwin sells its gages, Baldwin's relationship with its purchasers under notice and its commercial licensees is legally no different than if the arangement involved a license. Accordingly it is asserted that 35 U.S.C. § 271(d) is a bar to the misuse defense.

Conceding *arguendo* that a sale with a restriction on use is indistinguishable from a license limiting use, still 35 U.S.C. § 271(d) will not sustain Baldwin's tying policy against the charge of misuse. Section 271(d) does not define the elements of misuse. It simply states what is *not* misuse. It says that it is not misuse for a patent owner, otherwise

entitled to relief for infringement or contributory infringement, to derive revenue either from acts or from licensing others to perform acts which, if performed without the patentee's consent, would constitute contributory infringement. Plaintiffs argue that an unauthorized sale of apparatus to be used with the gage which Baldwin has sold under the notice restriction would constitute contributory infringement; hence, plaintiffs assert, by the terms of § 271(d) the tying of the apparatus to the gage cannot be a misuse of the patent.

The premise of this argument will not withstand analysis. Section 271(c) defines a contributory infringer. Under its definition one is a contributory infringer only if a combination of several factors exists. To be liable for contributory infringement under the statute (1) a person must sell a component of a patented combination, (2) the component must constitute a material part of the invention, (3) the seller must know that the component has been especially made or especially adapted for use in an infringement of the patent, and (4) the component must not be a staple article or commodity of commerce suitable for substantial noninfringing use. Assuming that in the case of an unauthorized sale of apparatus for use with the Simmons gage factors (1), (3) and (4) were proven, the seller still would not be a contributory infringer because the apparatus would not be "a material part of the invention". The divisional action in the Patent Office supports the view that the combination of the strain gage *per se* and specific types of strain sensitive apparatus constitute inventions distinct and independent from the invention of the strain gage *per se*. 35 U.S.C. § 121. Furthermore, in paragraph 54 of plaintiffs' proposed findings of fact it is stated that "the gage element manufactured and sold by Baldwin, and built by others under license, is the heart of the Simmons invention * * *". And at page 3 of plaintiffs' brief dated September 20, 1958 plaintiffs say that the "gage in all its forms, as

sold, is * * * a special device constituting the heart of the patented combination". The evidence supports these statements, and forecloses a finding that the apparatus sold by Baldwin and by its licensees, even though they be deemed to be components of the patented combination, are material parts of the invention.

Since then an unauthorized sale of a strain sensitive apparatus for use with a strain gage *per se* would not constitute contributory infringement, § 271(d) does not require a denial of the misuse defense.

In view of the finding that "the test body" in the Simmons patent is not a component of the patent, or, if it is, that it is not a material part of Simmons' invention, Hunt v. Armour & Co., D.C.N.D.Ill., 90 F.Supp. 767; affirmed 7 Cir., 1950, 185 F.2d 722, relied upon by plaintiffs, is inapposite.

Plaintiffs argue that the record contains no evidence to support the statement which is found at page 31 of 169 F.Supp. in the December 1 opinion:

> "* * * By its marketing policy of the gages Baldwin has been able to reduce or eliminate the competition which it and its licensees might otherwise have encountered in selling devices such as load cells and weight indicators not covered by the Simmons patent. * * *"

While there may be no direct evidence to support this statement, it is a fair inference to be drawn from all the evidence. Moreover, the record leaves no room to doubt that for years it has been Baldwin's policy to refuse to sell its gages *per se* to persons who might desire to use them with strain sensitive apparatus of a type manufactured by Baldwin or by its licensees unless the persons bought both the gages *per se* and the apparatus from Baldwin or its licensees. This policy was enforced regardless of whether the buyers were in a position to manufacture the apparatus themselves or to buy it from others. The enforcement of

this policy constituted an illegal expansion of the monopoly conferred by the Simmons patent on the gage *per se* beyond that contemplated by the patent grant. This misuse is a bar to the enforcement of the patent against the defendants regardless of whether plaintiffs' activities constituted a violation of the anti-trust laws.

The foregoing shall constitute supplemental findings of fact and conclusions of law in accordance with Rule 52.

An order will be entered denying the petition of plaintiffs for a reargument.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959 No. 411

BALDWIN-LIMA-HAMILTON CORPORATION and EDWARD E. SIMMONS, JR., Petitioners,

v.

TATNALL MEASURING SYSTEMS COMPANY and THE BUDD COMPANY, Respondents

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

REPLY BRIEF FOR PETITIONERS

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PRESS OF ALLEN, LANE & SCOTT, PHILADELPHIA

I.

Respondents' brief in opposition in no way impairs the fact that the decision of the Court of Appeals herein is of far-reaching and general importance in that it greatly extends the patent misuse principle, as was observed by Chief Judge Biggs in his dissenting opinion.

Respondents seek to eliminate the impact of the foregoing observation by suggesting that Chief Judge Biggs' dissent was based "apparently on the assumption that Baldwin did nothing more than incorporate the gage in apparatus of its own manufacture and refuse to sell the gage *per se*" (Respts.' Br. 6). On the contrary, the fact that Baldwin did sell the gages *per se* is made abundantly clear in the record and is set forth in the opening statement of petitioners' argument in support of their petition for a rehearing in the Court of Appeals (Pet. for Rehear. 4).

Respondents also try to minimize the importance of the issues here presented by referring repeatedly in their brief to the fact that the patent has expired. The fact is, of course, that the patent was in effect when it was infringed, and when petitioners instituted suit against respondents for infringement. The issues in the litigation as between the parties have not become moot because of the recent expiration of the patent (August 11, 1959); *Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283 (C. A. 3, 1956). Most important, the expiration of the patent in no way diminishes the force of the decision herein as a precedent in an area in which the public has a large and continuing public interest.

II.

The decision below is irreconcilable with other decisional law. Respondents misconstrue the ratio decidendi of the Court of Appeals opinion and attempt to justify it on a basis different from actuality.

The Court of Appeals nakedly held (Pet. 23, 24) that petitioner Baldwin's refusal to sell the patented gage "by itself" to prospective customers who wished to use it as a component in unitary devices of a type made by Baldwin, *e. g.*, load cells (Pet. 7-9) was an "unlawful extension" of the patent and an "illegal" limitation on the use of patented gage. That decision is irreconcilable with the decisions in other Circuits (Pet. 16-21).

So stated, respondents do not seriously challenge petitioners' argument. They attempt, rather, to justify the result below by taking an erroneous view of the *ratio decidendi*. They suggest (Respts.' Br. 8) that Questions 1 and 2 of the petition (Pet. 2) do not arise because Baldwin did not "merely" sell apparatus (*e. g.*, load cells) incorporating the gages and refuse to sell the gages *per se*; they assert (Respts.' Br. 13) that Question 3 "is not presented here" because the license notices under which Baldwin sold gages for testing purposes were "merely one means" employed to effectuate an "illegal allocation of fields and tying arrangement" (Pet. 4, 5, 15). The Court of Appeals, however, plainly did not condition its holding of illegality in the refusal to sell gages for load-cell use on the concurrent practice of selling gages *per se* for test use (Pet. 23-24). Nor did the trial court condition either of its holdings of misuse on the concurrence of the two practices which it condemned. (Respts.' Br. A4-A5, A10-A11).

The Questions presented by the petitioners accurately reflect the *ratio* of the decisions below.

III.

Respondent's brief emphasizes the confused and inconsistent state of the law on patent misuse and the need for an authoritative decision by this Court.

In the *General Talking Pictures* cases, (1938) 304 U. S. 175 and 305 U. S. 124, this Court held that a patentee may enforce restrictions on the use of a patented article by the vendee of its licensee,[1] even though there was no agreement between the vendee and the patentee. Now, according to the lower courts herein, what a patentee may do indirectly through a licensee he may not do directly by himself.

To derive a comprehensible rule of law from the present decision in the context of *General Talking Pictures*, is a practical impossibility. So too with the basic conflict between the present holding and the law laid down in other Circuits (Pet. 16-24). These facts are underlined by the complexity of respondents' attempts at reconciliation.

The need for clarification by this Court is apparent.

Respectfully submitted,

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WALTER J. BLENKO,
Attorneys for Petitioners.

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[1] Respondents' attempt to distinguish *General Talking Pictures*, on the basis that Baldwin's licensees had no right to manufacture the patented device, is contradicted by the record. (Pet. 109a—"If BROWN & SHARPE feel that BALDWIN as a source of supply is unsatisfactory for any reason, then BROWN & SHARPE has the right to make, or have made, gages for their own use solely with the particular machines or tools in the above classifications.")

REIL'S BUILT FOR

ILLUSIONISTS